

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /109 W

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R 241430Z MAY 76

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 2705

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

USDEL MTN GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

UNCLAS COPENHAGEN 1720

E.O. QYTWC N/A

TAGS: EFIN, DA

SUBJECT: KRONE PARITY WITH DEUTSCHMARK

REF: (A) COPENHAGEN 1620, (B) COPENHAGEN 1545

1. COPENHAGEN FOREIGN EXCHANGE MARKET OVER PAST TWO WEEKS HAS
REFLECTED STEADY DOLLAR IMPROVEMENT AT RATE OF CLOSE TO TWO
PERCENT AGAINST SNAKE CURRENCIES, RAPID RECOVERY OF LIRA, AND
FURTHER DECLINE FOR STERLING.

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2. IN THIS CHANGING MARKET, DANISH KRONE HAS SHOWN CONSIDERABLE STABILITY AND STRENGTH. WHILE KRONE ALSO YIELDED TO STRENGTHENING DOLLAR, IT DID SO AT ONLY HALF THE RATE OF THE DEUTSCHMARK.

3. THIS DEVELOPMENT BECAME MORE REMARKABLE ON MAY 21 IN COPENHAGEN WHEN DOLLARS ROSE CLOSE TO ONE PERCENT AGAINST SNAKE CURRENCIES BUT LESS THAN HALF A PERCENT AGAINST DANISH KRONE. KRONE, AT PARITY WITH DEUTSCHMARK, LED THE SNAKE 3.2 PERCENT ABOVE THE OFFICIAL DOLLAR PARITY AND ABOUT TWO PERCENT AHEAD OF GUILDERS AT THE BOTTOM OF THE SNAKE.

4. COMMENT: IT WAS GENERALLY EXPECTED THAT THE RECENT DETERIORATION OF THE DANISH TRADE AND PAYMENTS BALANCES (SEE REF A) WOULD EXERCISE CONSIDERABLE PRESSURE AGAINST THE DANISH KRONE. WE BELIEVE THAT THE STAMINA OF THE KRONE IS EXPLAINED

BY ACTIVE GOVERNMENT BORROWING ABROAD. THE DANISH GOVERNMENT SIGNED ANOTHER \$200 MILLION CREDIT YESTERDAY (SEE REF B) AND ALREADY HELD SIGNIFICANT AMOUNTS OF UNUTILIZED CREDIT UNDER PREVIOUS ARRANGEMENTS. SINCE THE PRESENT HIGH RATE OF THE KRONE IS UNLIKELY TO RESULT FROM COMMERCIAL TRANSACTIONS, INDICATIONS ARE THAT THE GOVERNMENT HAS BEGUN TO UTILIZE THOSE CREDITS IN ORDER TO BOLSTER RESERVES AGAINST ANTICIPATED COMMERCIAL DRAINS LATER THIS YEAR. LUKENS

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